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Message Text

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E.O. 11652: N/A
TAGS: ECON, EFIN, OECD
SUBJECT: JULY 8 TWP MEETING: REVIEW OF SMALL OECD
COUNTRY CURRENT ACCOUNT POSITIONS; STATUS
OF SUPPORT FUND RATIFICATION

REF: CPE/TWP(76)14

1. SUMMARY: AT ITS JULY 8 MEETING, TWP MAINLY CARRIED FORWARD ITS RESPONSIBILITY OF MONITORING SMALL COUNTRY CURRENT ACCOUNT SITUATIONS AND FOCUSED ON THOSE COUNTRIES CONSIDERED MOST LIKELY TO ENCOUNTER POTENTIAL FINANCING DIFFICULTIES (SPAIN, DENMARK, FINLAND, GREECE, PORTUGAL, NEW ZEALAND AND TURKEY). REMAINING SMALL COUNTRIES ESCAPED DUBIOUS DISTINCTION OF TWP SCRUTINY (SEE PARA 2). MOST COUNTRIES EXAMINED AT MEETING FORECAST SLIGHTLY SMALLER (ALBEIT STILL LARGE) 1976 CURRENT ACCOUNT DEFICITS THAN DID SECRETARIAT (SEE TABLE PARA 10). NO COUNTRY EXPECTED FINANCING OF DEFICIT TO BE PROBLEM IN SHORT RUN. HOWEVER, MOST COUNTRY PRE-
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SENTATIONS WERE VAGUE AS TO SPECIFIC SOURCE OF SUCH

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FINANCING AND PICTURE OF FINANCING PROSPECTS REMAINED SOMEWHAT UNCLEAR. TWP CHAIRMAN VAN YPERSELE ASKED THESE COUNTRIES TO SUBMIT TO SECRETARIAT FURTHER DE-TAIIS BOTH ON PROJECTED CURRENT ACCOUNT DEFICITS AND ON FINANCING. PRESENTATIONS WERE IN GENERAL DISAPPOINTING, MADE IN SOME CASES BY REPRESENTATIVES OF PERMANENT DEL OR OF TRADE MINISTRIES, RATHER THAN FINANCE OR CENTRAL BANK. TWP HAD BRIEF GENERAL DISCUSSION OF (A) APPARENT ANOMALY OF CYCLICAL DISSYMETRY (POINTED OUT BY FRG AND US) THAT MANY SMALL COUNTRIES' CURRENT ACCOUNTS NOT EXPECTED TO IMPROVE IN 1976 DESPITE FACT THAT LARGE COUNTRIES LEADING RECOVERY, AND (B) DIVISION OF RESPON-SIBILITY OF (WEAK) SMALL AND (STRONG) LARGE COUNTRIES IN FACILITATING RETURN OF FORMER TO BETTER PAYMENTS BALANCE. TWP WILL HOLD NEXT EXAMINATION OF SMALL COUNTRY CURRENT ACCOUNT SITUATION IN AUTUMN AND WILL REPORT CONCLUSIONS TO EPC FOR ITS NOV. 22-23 MEETING.
US GAVE UPDATE ON STATUS OF SUPPORT FUND RATIFICATION (SEE PARA 9). END SUMMARY.

2. AT SUGGESTION OF SECRETARIAT, MANY SMALL COUNTRIES ESCAPED DUBIOUS DISTINCTION OF TWP SCRUTINY EITHER BE-CAUSE (A) THEIR CURRENT ACCOUNTS PROJECTED TO BE IN SURPLUS THIS YEAR (BENELUX, SWITZERLAND); (B) THEIR DEFICITS SHOULD NOT BE LARGE ENOUGH TO PRESENT FINANC-ING PROBLEMS (AUSTRALIA, AUSTRIA, SWEDEN, IRELAND); (C) THEY ARE OBVIOUSLY SOLVENT (NORWAY). THESE COUN-TRIES WERE ASKED TO SUBMIT DIRECTLY TO SECRETARIAT ANY COMMENTS THEY MAY HAVE ON CURRENT ACCOUNT FORECASTS CONTAINED IN REFDOC.

3. DELS OF COUNTRIES EXAMINED AT MEETING STATED THEY DID NOT EXPECT TO ENCOUNTER EXTERNAL FINANCING DIFFI-CULTIES IN SHORT RUN. FINLAND AND NEW ZEALAND EXPRESSED CONCERN OVER RISING BURDEN OF DEBT AND STATED INTENTION TO RESTORE CURRENT ACCOUNT EQUILIBRIUM, BUT ADDED THAT THIS RESULT COULD PROBABLY NOT BE ACHIEVED BEFORE 1980. SPANISH DELEGATE SAID HE EXPECTED NEW GOVERNMENT TO INSTITUTE STABILIZATION PROGRAM WHICH, IF EFFECTIVE, WOUID SUBSTANTIALLY REDUCE DEFICITS IN 1977. IN ANY

CASE GOS WILLINGNESS TO DRAW DOWN RESERVES BY UP TO $2 BIILION FROM PRESENT HIGH LEVELS ANTICIPATED TO HELP ASSURE FINANCING. NO OTHER SPECIFICS OFFERED WITH RESPECT TO FINANCING. SPAIN ALSO JOINED NEW ZEALAND IN IDENTIFYING AGRICULTURAL PROTECTIONISM AS FACTOR LIMIT-ING EXPORT GROWTH POTENTIAL WITH CONSEQUENT ADVERSE EFFECTS ON FUTURE COURSE OF CURRENT ACCOUNT AND HENCE ON MAGNITUDE OF FINANCING NEEDS.

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4. SECRETARIAT SOMEWHAT LESS SANGUINE THAN COUNTRY REPS ABOUT PROSPECTS FOR FINANCING OF DEFICITS. IN PARTICU-LAR, SECRETARIAT NOTED THAT DRAWDOWN OF RESERVES DURING FIRST HALF OF 1976 BY ONE OPTIMIST, TURKEY, INDICATED POSSIBIE EMERGENCE OF DIFFICULTIES OF BORROWING FROM

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ABROAD. IN ADDITION, SECRETARIAT COMMENTED THAT, WHILE $1-2 BILLION DEPLETION OF SPANISH RESERVES WOULD NOT BE SERIOUS IF OVERALL ECONOMIC SITUATION WERE STABIE, IN CONTEXT OF WIDENING DEFICIT FALL IN RESERVES COULD MAKE LENDERS MORE CAUTIOUS AS WELL AS INCREASING MAGNITUDE OF BORROWING REQUIREMENT.

5. MOREOVER, TWP WAS NOT REASSURED BY SIMPLE DECLARA-TION THAT NO NEAR-TERM FINANCING PROBLEMS EXPECTED. MOST COUNTRIES HAD ONLY VAGUE IDEA OF THEIR TOTAL FINANCING NEEDS OR THE FORM (OFFICIAL VS. PRIVATE; SHORT TERM VS. LONG TERM) THEIR BORROWING MIGHT TAKE.

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CONSEQUENTLY, VAN YPERSELE ASKED THESE COUNTRIES TO SUBMIT TO SECRETARIAT DETAILED INFORMATION ON THEIR PROJECTED CURRENT ACCOUNT DEFICITS, EXTERNAL FINANCING REQUIREMENTS, MAGNITUDE AND COMPOSITION OF DEBT, AND DEBT SERVICE RATIOS. COUNTRIES AGREED TO PROVIDE INFORMATION BEFORE AUTUMN TWP MEETING.

6. GENERAL DISCUSSION: US AND FRG NOTED THAT SECRET-
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ARIAT FORECASTS INDICATED THAT SMALL-COUNTRY CURRENT ACCOUNT DEFICITS HAD NOT IMPROVED BETWEEN 1975 AND 1976, AND FOUND THIS RESULT TO BE SOMEWHAT CURIOUS IN LIGHT OF SUBSTANTIAL DETERIORATION IN POSITION OF LARGE COUNTRIES. SECRETARIAT OFFERED FOLLOWING EXPLANATIONS: (A) COUNTRIES LEADING UPSWING NOT CLOSELY LINKED TO SMALL DEFICIT COUNTRIES (US POINTED TO STRONG RECOVERY IN FRANCE AND FRG); (B) DIFFERENCES IN SMALL AND LARGE COUNTRY GROWTH RATES WERE GREATER IN DOWNSWING THAN IN UPSWING; (C) SOME SMALL COUNTRIES HAVE MOVED INTO SURPLUS; IMPLICATION IS THAT DEFICITS IN OTHER SMALLS MAY INCLUDE STRUCTURAL EIEMENTS. SECRETARIAT, HOWEVER, NOTED THERE HAS BEEN NO EVIDENCE OF REALIZATION OF EARLIER FEARS THAT SMALL COUNTRIES WOULD BE UNABLE TO EXPAND EXPORT TO OPEC FOR LACK OF ABILITY SUPPLY GOODS AND SERVICES DESIRED BY OPEC CUSTOMERS. (SOME COUNTRIES, E.G. TURKEY AND SPAIN, EXPRESSED HOPE INCREASED TOURIST AND WORKERS REMITTANCE RECEIPTS WOULD IMPROVE CURRENT RECEIPTS SUBSTANTIALLY THIS YEAR, BUT HAD NO DATA TO BACK UP SUCH EXPECTATIONS).

7. FRG ADDED THAT HIGH INFLATION IN DEFICIT COUNTRIES COULD ALSO LIE BEHIND THIS APPARENT CYCLICAL ANOMALY. US (WIDMAN) PLACED SPECIFIC FRG POINT IN MORE GENERAL CONTEXT OF INTRA-OECD CURRENT ACCOUNT ADJUSTMENT BY URGING COUNTRIES BEGINNING TO ENCOUNTER DIFFICULTY IN BORROWING FROM PRIVATE MARKETS TO BEGIN PROCESS OF ADJUSTMENT. LAG BETWEEN INITIATION OF POLICY CHANGES AND EFFECT ON BALANCES, TOGETHER WITH LIMITED MAGNITUDE OF POTENTIAL FINANCING FROM OFFICIAL INSTITUTIONS, MADE IT IMPORTANT TO TAKE SOMEWHAT LONGER VIEW OF PAYMENTS OUTLOOK AND TO START ADJUSTMENT WHILE "BRIDGE FINANCING" STILL AVAILABLE. IN THIS WAY NECESSITY FOR SUDDEN AND DISRUPTIVE MEASURES MIGHT BE AVOIDED.

8. US ALSO NOTED THAT THOSE STRONG COUNTRIES--SMALL AS WELL AS LARGE--READILY ABLE TO ATTRACT PRIVATE CAPITAL SHOULD BE PREPARED TO ACCEPT CURRENT ACCOUNT DEFICITS WITHOUT WHICH WEAKER COUNTRIES WOULD BE UNABLE TO ADJUST. THIS RESPONSIBILITY INCLUDES: (A) MAINTENANCE OF OPEN

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MARKETS; (B) MODERATE, STEADY GROWTH, RECOGNIZING NEED
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TO REDUCE INFLATION TO SUSTAIN THAT GROWTH, AND (C)
WILLINGNESS TO ALLOW THEIR EXCHANGE RATES TO APPRECIATE.

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9. STATUS OF SUPPORT FUND RATIFICATION: INSTEAD OF
USUAL TOUR DE TABLE, TWP FOCUSED ON SLOW PROGRESS TOWARD
RATIFICATION IN US. US REPORTED THAT SENATE BANKING
COMMITTEE WAS CONSIDERING TEN AMENDMENTS TO NECESSARY
LEGISLATION, SOME OF WHICH WERE NOT COMPATIBIE WITH
AGREEMENT. ADMINISTRATION IS CONTINUING TO PRESS FOR
EARLY APPROVAI. SENATE BANKING COMMITTEE NOW PLANNING
TO RECONSIDER BILL DURING WEEK OF JULY 19. US REP

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ACKNOWLEDGED, HOWEVER, THAT, EVEN ASSUMING FAVORABLE ACTION BY THIS COMMITTEE, UNLIKELY SENATE AND HOUSE COULD ACT ON BILL IN BRIEF CONGRESSIONAL SESSION BETWEEN POLITICAL CONVENTIONS. THUS, RATIFICATION WOULD PROBABLY NOT BE COMPLETED BEFORE SEPTEMBER, AT THE EARLIEST.

10. 1976 SMALL COUNTRY CURRENT ACCOUNT FORECASTS (BILLIONS DOLLARS)

SECRETARIAT (REFDOC)	COUNTRY FORECASTS	
SPAIN	-2.5	4.0

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DENMARK	1.5	1.4
FINLAND	1.6	1.2 - 1.3
GREECE	1.2	NO FORECAST
NEW ZEALAND	0.75	1.0
PORTUGAL	1.4	1.0
TURKEY	1.8	NO FORECAST

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